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BEFORE THE STATE AUDITOR;
EX-OFFICIO COMMISSIONER OF SECURITIES AND INSURANCE
HELENA, MONTANA

IN THE MATTER OF:)	Case No.: I 08-18-06-236
)	FIRST AMENDED
PATRICK PHILLIP DAVISON, individually and in)	NOTICE OF PROPOSED AGENCY
his capacity as agent/owner of DAVISON, LLC, and)	DISCIPLINARY ACTION and
P & N VENTURES d/b/a PPV, all of Billings,)	OPPORTUNITY FOR HEARING
Montana.)	
)	
Respondents.)	

Staff of the Securities Department (Department) of the office of the State Auditor as Commissioner of Securities of the state of Montana (Commissioner), pursuant to the authority of the Securities Act of Montana, §§30-10-101, *et seq.*, MCA (2005), is proposing to the Commissioner that he take specific action against PATRICK PHILLIP DAVISON, individually and in his capacity as agent/owner of Davison, LLC and P & N Ventures d/b/a PPV named above for violations of the Montana Securities Act. The Commissioner has authority to take such action under the provisions of §§ 30-10-102, 30-10-107, 30-10-201, 30-10-202, 30-10-301, 30-10-304, 30-10-305, and 30-10-309, (2005) MCA. **Further, the Department AMENDS this complaint pursuant to Rule 15(a) of the Montana Rules of Civil Procedure, as adopted by Administrative Rule § 6.2.120.**

In particular, the Department's staff is recommending specific action against Patrick Phillip Davison including imposition of appropriate fines and appropriate restitution, with interest, pursuant to the provisions of the Montana Securities Act.

Service of process is pursuant to Section 30-10-107 (8), (2005) MCA.

REASONS FOR ACTION

There is probable cause to believe that the following facts, if true, justify and support such specific action.

ALLEGATIONS

1. **The time period applicable to this action pursuant to the relevant statute of limitations found at § 30-10-305 (4), MCA, is September 1, 2001 through August 31, 2006.**

2. Patrick Phillip Davison (Davison) was registered as a securities salesperson and an investment advisor representative in the State of Montana **from May 15, 1988** through March 7, 2003. During this period Davison worked for UBS/PaineWebber in its Billings, Montana branch office. In or near March 7, 2003, Davison resigned from UBS/PaineWebber, terminating his registration as a securities salesperson and an investment advisor representative in Montana. Davison has not subsequently sought registration in any capacity in the securities industry in Montana.

3. In or near July 2000 Davison was the subject of a customer complaint while employed by UBS/PaineWebber. In or near early 2004, Davison was the subject of at least 4 additional customer complaints after he had terminated his employment with UBS/PaineWebber. These complaints are the same or similar in nature to the complaints illustrated in this pleading. The brokerage firm took steps to resolve each of the complaints against Davison. However, the

Department did not receive any customer complaints against Davison during this specific period, nor did UBS/PaineWebber specifically notify the Department about these complaints.

4. On or about August 7, 2006, UBS Financial Services (fka UBS/PaineWebber) received another customer complaint alleging Breach of fiduciary duty, misrepresentation, negligence, fraud, excessive and unauthorized trading, unsuitable recommendations resulting in losses of approximately \$1.186 million.

5. The Department was contacted by one of Davison's customers (Complainant 1) on or around August 21, 2006. Complainant 1 provided copies of documents he received from Davison during the course of Complainant 1's contact and as part of business transactions engaged in with Davison.

6. According to the information provided by Complainant 1, in or near October 2003 Davison approached Complainant 1 seeking money from Complainant 1 to invest in an Individual Retirement Account (IRA) directly with Davison. Because Complainant 1 was Davison's customer while he was registered as a securities salesperson, Davison had specific knowledge regarding Complainant 1's financial affairs. Davison instructed Complainant 1 to withdraw \$500,000 from the IRA Complainant 1 maintained at UBS/PaineWebber. Subsequently, on or about October 23, 2003, Complainant 1 withdrew this amount from that UBS/PaineWebber IRA. Davison then instructed Complainant 1 to write two checks payable to First Citizen's Bank in Billings to initiate the IRA Davison proposed to manage for Complainant 1. Complainant 1 provided the two checks to Davison, **one in the amount of \$285,000 and one in the amount of \$215,000**. Davison deposited one check in an account at First Citizen's Bank, and Davison deposited the other check into a different account at First Citizen's Bank.

7. An analysis of bank records received from First Citizen's Bank indicates Complainant 1's check in the amount of \$285,000 was deposited into Davison's personal bank account and Complainant 1's check in the amount of \$215,000 was deposited into an account entitled Mayfair 2, an account owned or controlled by Davison. These proceeds were subsequently used by Davison for purposes other than the creation and support of an IRA for Complainant 1.

8. Davison initially prepared a statement for Complainant 1 that indicated the new IRA was invested in "Contract 2003-1" held within a "Qualified Plan Davison LLC" with a term of 18% interest for sixty-seven (67) days. Later, in statements prepared for Complainant 1 by Davison, Davison indicated the funds were moved into "Contract 2003-2" with a term of 8% interest for two year term. On a statement prepared by Davison dated December 31, 2004, Davison indicated "Contract 2003-2" held in "Qualified Plan Davison LLC" had a value of \$535,627. Additionally, Complainant 1 alleges Davison withdrew another \$164,000 from Complainant 1's UBS/PaineWebber IRA account and invested the proceeds in "Contract 2005-1" which was also held in "Qualified Plan Davison LLC". Davison disclosed this "Contract 2005-1" with a term of 8% interest in the amount of \$164,000 in a statement he prepared for Complainant 1 dated December 31, 2004.

9. Complainant 1 also maintained with Davison an investment in an entity entitled "PPV." Complainant 1 invested \$150,000 on June 20, 1996; \$50,000 on July 16, 1996; \$250,000 on June 19, 1997; \$100,000 on July 11, 1997; and \$125,000 on January 12, 1999 with Davison, for a total of \$675,000. Complainant 1 indicated Davison told him the PPV investment offered higher rates of return than CDs, treasury notes and bonds and promised a monthly income stream of \$5,560 per month. Complainant 1 further indicated

that since 1996 income checks from the PPV investments came monthly, usually with Davison depositing the money directly into a checking account owned and controlled by Complainant 1 and Complainant 1's spouse. Complainant 1 gave Davison blank deposit slips so Davison could make deposits to the checking account owned and controlled by Complainant 1 and Complainant 1's spouse. Complainant 1 indicated the checks were originally supposed to arrive on the 10th of each month, but over time, began coming on the 15th of the month, then on the 25th, and then on the 30th. Complainant 1 indicated Davison made excuses regarding why the checks came later in the month. Complainant 1 indicated this income stream was needed because Complainant 1 was retired and Complainant 1's family had no other regular income source.

10. Complainant 1 instructed Davison to issue a monthly distribution check in the amount of \$5,560.00 with funds derived from the PPV investment with Davison. Complainant 1 indicated receipt of monthly PPV distribution checks until on or around February 27, 2006, when Davison wrote a check for the monthly PPV distribution check in the amount of \$5,560.00 payable to Complainant 1's spouse, from Davison LLC's account at First Citizen's Bank. The check was returned to Complainant 1 by First Citizen's Bank stamped "NSF". **(The Department, in its initial Notice of Proposed Agency Action, erroneously alleged Davison paid these distribution amounts from the IRA Davison allegedly created for Complainant 1 at First Citizen's Bank. Complainant 1 provided additional information to clarify the source of the payments.)**

11. Subsequent to Complainant 1 receiving the NSF check, Complainant 1 visited First Citizen's Bank in Billings. Complainant 1 alleges that the First Citizen's Bank provided information indicating there are no accounts in Complainant 1's name at First Citizen's Bank in

Billings, the accounts in which Complainant 1's checks were deposited were never accounts in Complainant 1's name and also determined that Complainant 1 has never had an IRA at First Citizen's Bank.

12. Davison issued a 1099-INT to Complainant 1 for tax year 2003 indicating \$14,794.00 in interest income had been paid to Complainant 1 by Davison, LLC, an entity owned and controlled by Davison. The Department has determined that the federal tax identification number used on the 1099-INT is not valid.

13. Since February 2006, Complainant 1 has received nothing more than statements from Davison regarding this IRA account.

14. Complainant 1 further alleged that in December 2005 Davison proposed another investment opportunity. Complainant 1 gave Davison \$250,000, which was withdrawn from Complainant 1's UBS/PaineWebber account with a stipulation to Davison that the principal be returned to Complainant 1 by March 2006 in order that Complainant 1 could pay state and federal income taxes. Davison agreed the principal would be returned by March 2006. Davison failed to return the principal to Complainant 1 by the end of March. When Complainant 1 contacted Davison in early April 2006 about the investment, Davison told him that the money had been erroneously rolled-over. Davison returned \$100,000 of the principal and \$15,000 in interest to Complainant 1 but has failed to return the balance of the principal and interest to date.

15. When Complainant 1 demanded the remaining principal, Davison wrote three checks from the Davison LLC account. One check was dated April 25, 2006 in the amount \$150,000; a second check was dated April 25, 2006 in the amount of \$50,000; and a third check was dated April 25, 2006 in the amount of \$50,000. Davison instructed Complainant 1 to hold the checks until Davison told Complainant 1 to cash these checks.

Davison never again contacted Complainant 1 regarding whether the checks were funded. Complainant 1 subsequently contacted the bank and learned the account the checks were written on had been closed.

16. Neither the Davison LLC, **PPV**, “Qualified Plan Davison LLC”, “Contract 2003-1”, “Contract 2003-2”, nor “Contract 2005-1” have registered their securities with the Montana Securities Division nor have they sought an exemption from registration.

17. The Department has determined each and every investment offered and sold, as identified in this complaint, to Complainant 1 was fraudulent. The Department has also determined all monies provided by Complainant 1 to Davison were not used for Complainant 1’s investment purposes.

18. The Department was contacted by another of Davison’s customers (Complainant 2) on or around August 21, 2006. Complainant 2 provided copies of documents he received from Davison during the course of Complainant 2’s contact and as part of business transactions engaged in with Davison.

19. According to Complainant 2, in or about July 2002 Davison approached Complainant 2 and Complainant 2’s spouse about investing in an investment entitled “The St. Labre Indian School Trust”, P.O. Box 20353, Billings, MT 59601. Davison told these Complainants they were purchasing a bond that would pay them a 7% tax-free rate of return and would come due on April 30, 2012. Davison told the Complainants the note was secured by oil and gas royalties and that their non-taxable interest would be reinvested.

20. Pursuant to Davison’s instructions Complainant 2 and spouse withdrew \$275,000 from their UBS/PaineWebber account on three separate occasions in July 2002. They wrote one check in the amount of \$125,000 on July 3, 2002; they wrote another check in the amount of

\$75,000 on July 9, 2002; and they wrote a third check in the amount of \$75,000 on July 22, 2002. These checks were all made payable to “PPV” an entity owned and controlled by Davison. These Complainants delivered the checks to Davison at his office at UBS/Paine Webber’s Billings branch office in July 2002. These three checks were subsequently deposited by Davison in an account at First State Bank of Fort Benton, Montana.

21. Davison provided statements to Complainant 2 and spouse showing them the value of their investment in the St. Labre Indian School Trust (School Trust). In approximately February 2003, Davison provided these Complainants a statement that indicated their investment in the School Trust had earned interest totaling \$6,487 over a period of 123 days. On or about November 10, 2003 Davison provided these Complainants a statement that indicated their School Trust investment was valued at \$284,626. On or about December 31, 2004 Davison provided these Complainants a statement that indicated their School Trust investment was valued at \$307,179.

22. To date, Complainant 2 and spouse have received nothing more than statements from Davison on their investment in the St. Labre Indian School Trust. As a result, these Complainants spoke with managers at UBS/PaineWebber who indicated the investment was not something offered or sold by UBS/PaineWebber. Additionally, the investment was never carried or displayed on their UBS/PaineWebber monthly account statements. Complainant 2 spoke with the attorneys for the St. Labre Indian School and personally visited with the school’s Chief Executive Officer, Curtis Yarlott and the school’s accountant, Jim McDonald. All of these St. Labre Indian School officials allegedly indicated the note was not issued by the school, the school does not have an Indian School Trust, there are no oil and gas royalties securing any indebtedness of the school and a St. Labre Indian School Trust does not exist.

23. James McDonald, CPA for the school, filed a complaint with UBS dated August 17, 2006 which reads, in part, “St. Labre was never advised of said trust account being established as identified [by Complainant 2]. We never received any funds from said trust account. We did not authorize the use of our name for said trust account. In addition, we do not intend to remunerate anyone that invested in said trust account.”

24. The entity “PPV” is not now nor has it ever been registered with the Montana Secretary of State’s Office. The Department has determined that the federal tax ID number used by Davison for PPV is not a valid federal tax ID number.

25. Neither the entity “PPV” nor the St. Labre Indian School Trust have registered their securities with the Montana Securities Division nor have they sought an exemption from registration.

26. On or about May 17, 2006, Davison again approached Complainant 2 and spouse about investing in a promissory note in the amount of \$100,000 with Davison, LLC, an entity owned and controlled by Davison. The note indicates an interest rate of 10%, payable quarterly, with a maturity date of May 17, 2007. The note includes a legend stating “secured with a Security Interest in 1,500 shares of ExxonMobil Corporation common stock and guaranteed by Patrick P. Davison.” These Complainants subsequently invested in the promissory note. The first payment to Complainants derived from the promissory note was due on June 30, 2006. To date, they have not received any payment from the note. Additionally, Davison has not demonstrated to these Complainants that he owns 1,500 unencumbered shares of ExxonMobil Corporation.

27. The Department has determined each and every investment offered and sold, as identified in this complaint, to Complainant 2 was fraudulent. The Department has also

determined all monies provided by Complainant 2 to Davison were not used for Complainant 2's investment purposes.

28. The Department met with Complainant 3 and his legal counsel on August 30, 2006. Complainant 3 provided documentation regarding Complainant 3's investments with Davison.

29. Complainant 3 invested funds from a retirement plan for Complainant 3 and ten employees of Complainant 3's business in a \$150,000 Promissory Note from Mayfair 2 with Davison. The Note identified Davison as "Chairman". The Note is dated August 21, 2003, and indicates a term of three years, a maturity date of August 21, 2006 and an 8% rate of return. The Note indicates it is guaranteed by collateral from PPV: a \$100,000 U.S. Treasury Note and a \$50,000 Federal Home Loan Mortgage Note. The Note reached maturity and Davison has failed to return the principal or pay the last quarterly interest payment.

30. The Department has been unable to determine whether the collateral identified in this note exists or whether Davison has control of such collateral.

31. Complainant 3 indicated to the Department that Complainant 3 received quarterly payments in a timely manner from Davison in 2003 and 2004. Complainant 3 indicated that in 2005 payments from Davison started arriving late. Complainant 3 said one interest check was returned NSF in May 2005 and Davison told Complainant 3 that he (Davison) would personally pay the remainder of the interest payments from his personal account. It appears Davison did not provide Complainant 3 with 1099's reflecting the income paid on the Promissory Note.

32. Complainant 3 said before Complainant 3 purchased the Promissory Note Complainant 3 took the Note to a local financial planner for advice on the investment. The financial planner prepared an amortization and interest schedule for the Note and Complainant 3 sent it to Davison. Complainant 3 also said the financial planner recommended a few changes in the wording of the Note and he also thought the Note should bear the certificate numbers of the securities securing the Note. Complainant 3 received a letter from Davison's secretary indicating Complainant 3's suggested changes could not be incorporated into the language and that the terms of the Note could not be altered to reflect the identification information.

33. MayFair 2 is not a registered security with the Montana Securities Division nor has an exemption to registration been sought by MayFair 2. An officer of MayFair 2 told the Department MayFair 2 has never issued promissory notes, nor is Davison authorized by MayFair 2 to issue any note or other security in MayFair 2's name. The officer told the Department MayFair 2 was a one-time fundraiser and was not an organization.

34. The Department has determined each and every investment offered and sold, as identified in this complaint, to Complainant 3 was fraudulent. The Department has also determined all monies provided by Complainant 3 to Davison were not used for Complainant 3's investment purposes.

35. The Department interviewed Complainant 4 on or about September 6, 2006. Complainant 4 provided copies of documentation regarding Complainant 4's investments with Davison.

36. Complainant 4 invested \$250,000 in a Promissory Note with Davison in December 2003. The Note's terms indicate an 8% interest rate and that the investment is backed with \$250,000 in U.S. Government Bonds. In December 2005 this Promissory Note came due. Rather than paying Complainant 4 the principal as owed pursuant to the terms of the Note, Davison convinced Complainant 4 to buy another Promissory Note with a two-year maturity backed by the same treasury note identified in the first Note. The second Note offered Complainant 4 a 9% rate of interest.

37. Complainant 4 indicated the interest payments on the first note were all paid relatively timely. However, Complainant 4 said the second note's payments were relatively timely until the July 2006 payment, which was quite late.

38. Complainant 4 said Davison would give Complainant 4 the key to Davison's office and Complainant 4 would enter Davison's office to retrieve an envelope of cash representing the interest payments owed on the Notes. On one payment, Davison was short of the amount owed by \$50 and Davison provided Complainant 4 a hand-written note stating that Davison would make up the amount owed.

39. To date, Complainant 4 has not received any of the principal invested in the promissory note. The Department has determined each and every investment offered and sold, as identified in this complaint, to Complainant 4 was fraudulent. The Department has also determined all monies provided by Complainant 4 to Davison were not used for Complainant 4's investment purposes.

40. The Department spoke with Complainant 5 with his attorney present on a conference call on September 13, 2006. Complainant 5 provided documentation regarding Complainant 5's investments with Davison.

41. Complainant 5 indicated Davison sold Complainant 5 tax-free bonds entitled “Foundation Assistance Group” on six separate occasions. These investments were made as follows:

- a. Complainant 5, through Complainant 5’s business, invested \$250,000 on December 18, 2000 with PPV. Davison deposited the check for this investment into an account owned and controlled by Davison.**
- b. Complainant 5, through Complainant 5’s business, invested another \$250,000 on December 27, 2000 with PPV. Davison deposited the check for this investment into an account owned and controlled by Davison.**
- c. Complainant 5, through Complainant 5’s business, invested \$175,000 on February 22, 2001 with PPV. Davison instructed Complainant 5 to wire funds for the investment to an account owned and controlled by Davison.**
- d. Complainant 5, through Complainant 5’s business, invested \$200,000 on March 6, 2001 with PPV. Davison deposited the check into an account owned and controlled by Davison.**
- e. Complainant 5, through Complainant 5’s business, invested \$150,000 on March 19, 2001 with PPV. Davison instructed Complainant 5 to wire funds for the investment to an account owned and controlled by Davison.**
- f. Complainant 5, through Complainant 5’s business, invested \$100,000 on March 2, 2001 with PPV. It is unclear where Davison deposited the funds for this investment.**

42. Complainant 5 indicated he understood each of these bonds had a five year term to maturity. However, Davison provided Complainant 5 with a statement indicating each of these bonds had been rolled into a new investment and would mature on December

15, 2010 and pay a 10% annual interest rate on a quarterly basis.

43. On or about September 23, 2002, Davison sold Complainant 5 a \$250,000 “floating rate note” that indicated a maturity date of September 15, 2009, and an adjustable interest rate to be paid on a semi-annual basis. Davison told Complainant 5 the floating rate would be 3% plus loan index, with interest payments of \$8,100 paid March 10th and September 10th, annually, until maturity.

44. Davison provided Complainant 5, on Davison letterhead, several statements evidencing each of these investments. Davison told Complainant 5 that there would be no certificates for the Foundation Assistance Group bonds because they were held in book entry¹ at Foundation Assistance Group. Davison also told Complainant 5 there would be no certificate for the Floating Rate Note as it, too, was held in book entry only.

45. Davison also prepared supplemental statements for Complainant 5 entitled “PPV Investments – Institutional Account, Account #A0025”. These supplemental statements were prepared on what appears to be UBS Financial Services stationary because it has the signature UBS Financial Services blue lines across the top and bottom of each page and the paper is a grey bond. The last statement prepared by Davison in this fashion was March 2003, the month he left UBS Financial Services. On this last statement, Davison represents Complainant 5’s investments in the Foundation Assistance Group and Floating Rate Notes to be worth \$1,403,125.00.

46. In or about July 2006, Complainant 5 told Davison to liquidate Complainant 5’s investments. In an e-mail from Davison dated July 26, 2006, Davison wrote

¹ “Book entry securities” are securities that are not represented by a certificate. Purchases and sales of some municipal bonds, for instance, are merely recorded on customer’s accounts; no certificates change hands. This is increasingly popular because it cuts down on paperwork for brokers and leaves investors free from worry about their certificates.

“[Complainant 5] – This confirms our conversation of July 25, 2006 that you want to liquidate your investments with Davison LLC on or before September 24, 2006. You will be paid par value plus accrued interest at the time of sale. A sale of \$400,000 par is scheduled for August 20, 2006.” Complainant 5 never received this payment.

47. Davison made the quarterly and semi-annual interest payments on the \$1,375,000 in notes. However, as time went by the interest payments were made later than the payment schedule. Davison has not returned any principal to Complainant 5.

48. The Department has determined that the Foundation Assistance Group is a fraudulent entity. The Department has determined that the Floating Rate Note is a fraudulent security, and/or entity. The Department has determined each and every investment offered and sold, as identified in this complaint, to Complainant 5 was fraudulent. The Department has also determined all monies provided by Complainant 5 to Davison were not used for Complainant 5’s investment purposes.

49. The Department met with Complainant 6 at his attorney’s office in Billings on September 6, 2006. Complainant 6 provided documentation regarding Complainant 6’s investments with Davison.

50. On at least eight (8) occasions, Davison sold Promissory Notes to Complainant 6 for investments in the Billings Catholic Schools as follows:

- a. Complainant 6 invested \$100,000 with Davison on July 19, 1994 for a Note with the Billings Catholic Schools. Complainant 6 wrote a check payable to “Billings Catholic Schools, c/o Pat Davison.” The terms of this Note indicated it became due October 15, 1994 at 9% interest. Additionally, Davison executed a personal Promissory Note stating “I, Patrick P. Davison for the Billings Catholic Schools**

promise to pay to the order of [Complainant 6], on or before October 15, 1994 the sum of one hundred thousand dollars (\$100,000) plus interest at a rate of 9% (nine percent) per annum,” dated July 19, 1994.

- b. Complainant 6 invested \$80,000 with Davison on June 15, 1995 after receiving a letter from Davison dated June 8, 1995 stating the Catholic Schools were experiencing a cash flow problem and needed money to complete a special project. Complainant 6’s check was payable to “Billings Catholic Schools.” The investment was characterized as a 3-month loan having a 10.5% interest rate.**
- c. Complainant 6 invested \$65,000 with Davison on April 16, 1996 after receiving a letter from Davison stating the Catholic Schools needed \$65,000. Complainant 6’s check was made payable to “Billings Catholic Schools.” The investment was characterized as maturing on October 20, 1996 and having a 10% rate of return. Davison executed a Promissory Note to Complainant 6 with his personal promise to pay the note that included the statement “This promise to pay is also secured with a quit claim deed for residential property which is given as security for this promissory note,” dated April 17, 1996 The Department has determined the quit claim deed is for residential property in Fort Benton. According to information received by the Department Davison had sold this same property to his maternal aunt, but had refused to transfer the deed to her.**
- d. Complainant 6 invested \$50,000 with Davison on August 28, 1996 after receiving a letter from Davison stating the Catholic Schools were experiencing a cash flow problem and needed money to meet payroll. Complainant 6 wrote a check payable to “Catholic Schools of Billings and Pat Davison.” The investment indicated it was a**

30-day loan having an 11% interest rate.

- e. Complainant 6 invested \$125,000 with Davison on March 15, 1999. The investment represented a Note Payable with a maturity date of March 15, 2000, an annual interest rate of 10% and included semi-annual interest payments. The note is signed by Davison and includes a statement “this is an obligation backed by the Diocese of Great Falls/Billings.”**
- f. Complainant 6 invested \$100,000 with Davison on July 14, 1999 after receiving a letter from Davison stating “I had a chance to get you another \$100,000 for one year at 10%. This is the last financing they will do, but you have been so good to help before, I thought you deserved the good rate.” The investment represented a Note Payable with a maturity date of July 15, 2000, an annual interest rate of 10% and included semi-annual interest payments. The note is signed by Davison and includes a statement “this is an obligation backed by the Diocese of Great Falls/Billings.”**
- g. Complainant 6 invested \$100,000 with Davison in June 2002. Davison, as Complainant 6’s representative with UBS, instructed UBS Financial Services to wire \$100,000 from Complainant 6’s UBS investment account, to the Billings Catholic Schools’ account.**
- h. In July 2002 Davison sent Complainant 6 an e-mail from UBS Financial Services that read “I see you had another \$100,000 bond mature in your account and increased your money market funds. I was able to get you the last \$100,000 from the Catholic Schools. What I got you is \$100,000 for two years at 8%. I will fax you a letter of authorization to sign and fax back. This will be the last one I can get as they are fully financed now . . . ” \$100,000 was subsequently wired from**

Complainant 6's UBS account and a two (2) year note with 8% interest was purchased with the stated purpose of supporting the Billings Catholic Schools.

51. The Department has determined that the entire amount of these investment proceeds totaling \$720,000 was deposited into bank accounts owned or controlled by Davison. It does not appear any of these proceeds went to the benefit of the Billings Catholic Schools nor were they obligations of the Billings Catholic Schools. Davison has returned \$555,000 in principal to Complainant 6 but there remains an outstanding note balance of \$165,000. The Department has determined the proceeds of these investments were deposited into an account owned and controlled by Davison.

52. On or about November 29, 2002, Complainant 6 invested \$250,000 with Davison in a Promissory Note with Mayfair Auction II, d/b/a Big Sky Gold Rush Charity Raffle. The Note indicated terms of 7% annual interest maturing March 29, 2003. The Department has determined the proceeds of this investment were deposited into an account owned and controlled by Davison.

53. The Department met with an officer of MayFair 2 on or about September 13, 2006. This officer appears as the signatory on the November 29, 2002 Promissory Note. This officer indicated the signature on the Promissory Note is a forgery.

54. On or about August 7, 2003, Complainant 6 invested \$200,000 in an investment Davison entitled JNR Trust Loan. The investment indicated terms of a 7.5% interest rate and a two year maturity. Complainant 6 made this investment after receiving an e-mail from Davison dated August 1, 2003 which read, in part, "I will make sure Fr. Houlihan understands that the Trust will stay as it is – you can count on me to get that done in a way that is not awkward...I have been asked by a personal trust worth \$15

million to provide up to \$500,000 cash to them for two years. They are willing to pay 7.5% for two years and I hold U.S. Government bonds as collateral equal to the value loaned to the trust. I suggest you put \$150,000 or \$200,000 into this as it is secured with collateral that I hold for the loans . . .” Davison deposited the \$200,000 from Complainant 6 into an account owned and controlled by Davison. The Department has found no evidence that the JNR Trust exists.

55. On or about November 11, 2003, Complainant 6 invested \$100,000 after receiving an e-mail from Davison which read, in part, “Yesterday I had a client call and is looking for \$100,000 for six months. I can vouch they are very solid and I will control the money. If you want to do it, please write a check payable to First Citizens Bank and leave it with Elizabeth today. The client is Rustic Construction outside of Boise, Idaho and they are very worthy.” The terms of the investment included a 7.5% interest rate and a maturity date of June 30, 2004. The Department has determined the proceeds of this investment were deposited into an account owned and controlled by Davison.

56. On or about May 17, 2004, Davison issued a check from his Davison LLC account payable to Complainant 6 in the amount of \$107,623, which represented the principal and interest payment on the Rustic Construction note. The check was returned to Complainant 6 marked “NSF”.

57. Complainant 6 invested \$125,000 with Davison on or about May 4, 2004, in a Promissory Note with terms of 6.5% interest and maturing July 4, 2004. Complainant 6 has never received any interest payment on this Note. Davison has returned \$25,000 of the principal, leaving an unpaid balance of \$100,000.

58. Complainant 6 invested \$200,000 with Davison on or about March 31, 2005,

after receiving an e-mail from Davison which read, in part, “I have a chance to give you return the favors you have done for me (sic). As I am working on this coal deal, I have a situation where one coal owner’s son who has about 5 million tons of coal needs a loan. I have lined the loan up for him at the bank, but I thought you might want the deal instead. It is \$200,000 for 18 months at 8%. The son gets the money from us in 18 months for about \$750,000 and I thought you might want the short-term deal rather than the bank. If you want to take it, I have set it up through Davison LLC and Davison LLC will guarantee the payment to you as I will hold the coal lease. Just make the check payable to Davison LLC and you can leave it at my office and I will forward the loan paper to you tomorrow.” Davison subsequently executed a Promissory Note in the amount of \$200,000 with terms of 8% interest and a maturity date of September 30, 2005. The note was secured with an escrow holding of \$200,000 in Davison LLC Nominee Account. Complainant 6’s check was deposited into a bank account Davison owned and controlled. Davison has never returned the principal. Davison issued a check to Complainant 6 in the amount of \$20,803 from his Davison LLC account on or about May 15, 2006 that represented an interest payment on this note. The check was returned by the bank marked “NSF.”

59. The Department has determined that none of the Promissory Notes and/or Notes with the Billings Catholic Schools were legitimate notes benefiting the Schools. The Department has found no evidence that Complainant 6’s investments in Mayfair 2, JNR Trust, Rustic Construction or Davison LLC as Nominee for the coal lease were legitimate investments. The Department’s analysis of Complainant 6’s investments indicates there is an outstanding unpaid principal balance of \$465,000 on investments which have all reached maturity date but remain unpaid. This unpaid balance is in addition to the unpaid balance

identified in paragraph 51 of this complaint.

60. The Department has determined each and every investment offered and sold, as identified in this complaint, to Complainant 6 was fraudulent. The Department has also determined all monies provided by Complainant 6 to Davison were not used for Complainant 6's investment purposes.

61. The Department met with an agent for Complainant 7 on or about September 13, 2006. Complainant 7's agent reviewed each of the Promissory Notes regarding Complainant 6 and said none of the obligations were authorized by Complainant 7. Furthermore, Complainant 7 was unaware of the notes, never received any proceeds from any of the notes and never authorized Davison to conduct this business for Complainant 7. Complainant 7's agent indicated Davison had no authority to sign promissory notes for Complainant 7, had no authority to encumber debt on behalf of the Complainant 7, and had no authority to receive or write checks on behalf of Complainant 7. Complainant 7's agent also indicated that in order for any subsidiary of Complainant 7 to borrow money, it first had to go to Complainant 7's Financial Counsel. Complainant 7's agent indicated Complainant 7 has never entered into any loans or debt securities with individual people.

62. Complainant 7's agent indicated Complainant 7 had two accounts at UBS Financial Services. One account was a restricted account with trust money from the Mary Alice Fortin Restricted Endowment Account (established in 1995) and a general account. Complainant 7's agent indicated that Davison was the original representative but at some point the representative was identified as N&P Partnership. Complainant 7's agent further indicated that Davison moved the monies in these accounts from UBS to Davison

LLC. However, Complainant 7's agent was unaware how Davison was able to move the money. Complainant 7's agent provided the Department with a statement dated June 30, 2006 from Davison LLC which indicates balances for Complainant 7's accounts. This statement includes language stating "above contracts will expire in March 2007".

63. The Department has determined that no contracts exist and that the proceeds from Complainant 7 two accounts at UBS Financial Services were transferred to bank accounts owned and controlled by Davison.

64. Complainant 8 filed a complaint with the Department on September 13, 2006. Complaint 8 provided the Department with documentation regarding Complainant 8's investments with Davison.

65. On or about May 19, 2000 Complaint 8 and spouse were solicited by Davison to purchase a bond. Davison told Complainant 8 the bond was a secure investment in the development of a communication and power network in three states, including Washington, Oregon and Idaho. Davison indicated the bond involved three companies: Northwest Telecommunications Network, Washington Power Consortium and Portland Area Industrial Council. Further, Davison told Complaint 8 the bond was backed by U.S. Government Bonds and senior mortgages on telecommunications and power substations. Davison told Complainant 8 the bond paid a 10% annual interest on a quarterly basis and would mature in 5 years, with a possible option of an 18-month extension. Additionally, Davison told Complainant 8 Davison would handle all paperwork associated with the bonds and that the documents and the bond would be held at UBS Paine Webber. Davison then told Complainant 8 to make Complainant 8's check for the bond payable to PPV.

66. Complainant 8 made the following investments with Davison pursuant to the assurances and guarantees Davison made about the bonds:

a. On or about May 16, 2000 Complainant 8 wrote a \$175,000 check from his UBS Financial Services payable to PPV for the purchase of these bonds. The check was deposited into an account owned and controlled by Davison.

b. On or about June 12, 2000, Complainant 8 wrote a second check to PPV in the amount of \$150,000. This check was also deposited into an account owned and controlled by Davison.

c. On or about June 27, 2000, Complainant 8 and spouse wrote a check from their Paine Webber account to PPV in the amount of \$225,000. This check was deposited into an account owned and controlled by Davison.

d. On or about July 31, 2000, Complainant 8 and spouse wrote a check from their Paine Webber account to PPV in the amount of \$175,000. This check was deposited into an account owned and controlled by Davison.

e. On or about January 16, 2000, Complainant 8 and spouse wrote a check from their Paine Webber account to PPV in the amount of \$175,000. This check was deposited into an account owned and controlled by Davison.

67. Davison stated quarterly interest payments of \$22,500 would be made to Complainant 8's checking account. It appears Complainant 8 received interest payments and 1099 tax forms for only the tax years 2001, 2003, and 2005.

68. Davison issued a 1099-INT to Complainant 8 for tax year 2001 indicating \$127,333.00 in interest income had been paid to Complainant 8 by P&N Ventures, an entity

owned and controlled by Davison. The Department has determined that the federal tax identification number used on the 1099-INT is not valid.

69. Davison issued a 1099-INT to Complainant 8 for tax year 2003 indicating \$90,000.00 in interest income had been paid to Complainant 8 by P&N Ventures, an entity owned and controlled by Davison. The Department has determined that the federal tax identification number used on the 1099-INT is not valid.

70. Davison issued a 1099-INT to Complainant 8 for tax year 2005 indicating \$90,000.00 in interest income had been paid to Complainant 8 by Davison LLC, an entity owned and controlled by Davison. The Department has determined that the federal tax identification number used on the 1099-INT is not valid.

71. In or about June 2005, Complainant 8 requested documentation and specifics on the bond's security. Davison was evasive and vague. Davison stated that the documentation on the bond was one-foot thick and stated he would provide them at a later date. Subsequent to this conversation, Complainant 8 spoke with UBS Paine Webber, which told Complainant 8 that they were unaware of the bond, and requested that Complainant 8 obtain information from Davison and provide that information to UBS Paine Webber.

72. In or about August 2005, Davison provided UBS with a memo and information regarding the bond. After reviewing the information, UBS expressed concern to Complainant 8 about the investment. When Complainant 8 met with Davison, Davison provided the same information to Complainant 8. This information indicated that the bond matured on November 30, 2012, five years beyond the original five year maturity date. Further, the information stated that the bond was an "unregistered/non-public

security.” Davison explained to Complainant 8 that the bond was a private placement with an aggregate offering of \$20 million that Davison personally structured with the companies. Over the next several months Davison insisted this was all the information he needed to provide, despite Complainant 8’s and UBS’s dissatisfaction with the explanation.

73. On or about October 3, 2005, Complainant 8, through legal counsel, sent a letter to Davison requesting further information regarding the bond. For the next few months Davison was elusive and vague in supplying information to Complainant 8’s legal counsel. Finally, in December 2005 Davison contacted Complainant 8 and spouse to tell them he had provided full disclosure to their legal counsel and that their legal counsel was satisfied with the disclosure. However, Complainant 8 had just spoken with legal counsel and knew he was not satisfied with Davison’s disclosures regarding the bond. Davison indicated to Complainant 8, “[t]he world would have to split in half, fall apart, and the companies disappear off the face of the earth for this bond not to be secure.”

74. On or about February 24, 2006, Complainant 8’s attorney sent Mr. Davison a letter requesting that Complainant 8 be cashed out of the bond immediately. Complainant 8 did not have contact with Davison again until April 2006. At that time Davison informed Complainant 8 that Davison did not receive Complainant 8’s February 24, 2006 letter. At that time, or shortly thereafter, both Complainant 8 and UBS hand delivered copies of the letter to Davison.

75. On or about May 1, 2006, Davison sent a letter to Complainant 8 stating he was purchasing a \$900,000 note in Gateway Park, LLC on or before August 1, 2006 for Complainant 8, rolling over the accrued and unpaid interest and principal from the previous investments. Davison made this purchase for Complainant 8 in lieu of returning

the principal and interest on the earlier investment. Interest payments were made to Complainant 8 through July 2006 on this Gateway Park, LLC investment.

76. The Department has determined that Davison was the registered agent for Gateway Park, LLC. However, the security is fraudulent.

77. On or about July 31, 2006 and August 1, 2006 Davison deposited three (3) checks totaling \$900,000 into Complainant 8's checking account. However, Davison stopped payment on the checks, informing Complainant 8 that the bank would take several days to clear the checks.

78. On or about August 7, 2006, Davison wired \$300,000 into Complainant 8's checking account. On August 7, 2006 Davison also assured Complainant 8 that the remaining \$600,000 would be wired into Complainant 8's account on Tuesday, August 8, 2006.

79. On August 8, 2006, UBS informed Complainant 8 that Davison would be unavailable for at least a month. Complainant 8 has yet to receive the remaining \$600,000 in principal.

80. The bond purchased by Complainant 8 is not now nor was it ever registered with the Department. Further, Northwest Telecommunications Network, Washington Power Consortium and Portland Area Industrial Council appear to be fictitious companies.

81. The Department has determined each and every investment offered and sold, as identified in this complaint, to Complainant 8 was fraudulent. The Department has also determined all monies provided by Complainant 8 to Davison were not used for Complainant 8's investment purposes.

82. The Department spoke with Investor 1 via telephone on September 12, 2006. Investor 1 provided the Department with documentation regarding Investor 1's investments with Davison.

83. On or about September 1, 2005, Investor 1 invested \$125,000 with Davison in a Promissory Note. The Note indicated terms of 8% annual interest maturing September 30, 2005. The Note states that it is secured with a quitclaim deed for property in Choteau County, Montana. The Department has determined the proceeds of this investment were deposited into Davison's personal account. Investor 1 to date has not received the principal or any interest from this investment.

84. On or about August 1, 2006, Investor 1 invested \$100,000 with Davison in a Promissory Note. The Note indicated terms of 8% annual interest maturing August 15, 2006. The Department has determined the proceeds of this investment were deposited into Davison's personal account. Investor 1 to date has not received the principal or any interest from this investment.

85. The Department has determined each and every investment offered and sold, as identified in this complaint, to Investor 1 was fraudulent. The Department has also determined all monies provided by Investor 1 to Davison were not used for Investor 1's investment purposes.

86. The Department's review of relevant bank records indicates Davison was conducting and promoting a pyramid promotional scheme in the form of a Ponzi² scheme.

² Ponzi schemes work on the "rob-Peter-to-pay-Paul" principle, as money from new investors is used to pay off earlier investors until the whole scheme collapses. The fraudsters behind this type of pyramid scheme may go to great lengths to make the program look like a legitimate investment program. But despite their claims to have legitimate investments or securities to sell, these fraudsters simply use money coming in from new investors to pay off early stage investors. Eventually the scheme will collapse because the scheme gets too big, the promoter cannot raise enough money from new investors to pay earlier investors, and many people lose their money.

These records evidence Davison seeking new investment dollars to pay existing investment obligations and for the purpose of Davison's personal enrichment.

CONCLUSIONS OF LAW

1. The Montana State Auditor is the Commissioner of Securities (Commissioner) pursuant to §§ 30-10-107, 2-15-1901, MCA.

2. The Commissioner has jurisdiction over this matter pursuant to §§ 30-10-102, 30-10-107, 30-10-201, 30-10-202, 30-10-301, 30-10-304, 30-10-305, and 30-10-307, MCA.

3. The administration of the Securities Act of Montana, § 30-10-101, *et seq.*, MCA, and is under the supervision and control of the Securities Commissioner, pursuant to § 30-10-107, MCA.

4. The Commissioner shall administer the Securities Department to protect investors, pursuant to § 30-10-102, MCA.

5. Davison was a Montana registered salesperson as defined at § 30-10-103(20), MCA, and was so registered pursuant to § 30-10-201, MCA, during the relevant time period until March 7, 2003. Subsequent to Davison losing his registration as a salesperson in Montana, he conducted securities business without proper registration in violation of § 30-10-201, MCA.

6. The investment contract and investment opportunity offered and sold by Davison to Complainant 1 are both securities as defined at § 30-10-103 (22) (a), MCA. Neither of these securities were registered with the Department in violation of § 30-10-202, MCA.

7. The St. Labre Indian School Trust bond and the promissory note offered and sold by Davison to Complainant 2 and spouse are both securities as defined at § 30-10-103 (22) (a), MCA. Neither of these securities were registered with the Department in violation of § 30-10-202, MCA.

8. The investment contracts and investment opportunities offered and sold by Davison to Complainant 3 are securities as defined at § 30-10-103 (22) (a), MCA. None of these securities were registered with the Department in violation of § 30-10-202, MCA.

9. The investment contracts and investment opportunities offered and sold by Davison to Complainant 4 are securities as defined at § 30-10-103 (22) (a), MCA. None of these securities were registered with the Department in violation of § 30-10-202, MCA.

10. The investment contracts and investment opportunities offered and sold by Davison to Complainant 5 are securities as defined at § 30-10-103 (22) (a), MCA. None of these securities were registered with the Department in violation of § 30-10-202, MCA.

11. The investment contracts and investment opportunities offered and sold by Davison to Complainant 6 are securities as defined at § 30-10-103 (22) (a), MCA. None of these securities were registered with the Department in violation of § 30-10-202, MCA.

12. The investment contracts and investment opportunities offered and sold by Davison to Complainant 7 are securities as defined at § 30-10-103 (22) (a), MCA. None of these securities were registered with the Department in violation of § 30-10-202, MCA.

13. The investment contracts and investment opportunities offered and sold by Davison to Complainant 8 are securities as defined at § 30-10-103 (22) (a), MCA. None of these securities were registered with the Department in violation of § 30-10-202, MCA.

14. The investment contracts and investment opportunities offered and sold by Davison to Investor 1 are securities as defined at § 30-10-103 (22) (a), MCA. None of these securities were registered with the Department in violation of § 30-10-202, MCA.

15. Davison made untrue statements and omitted material facts when he told Complainant 1 that Davison would invest Complainant 1's \$664,000 in a qualified IRA plan that does not exist, in violation of § 30-10-301 (1) (b), MCA.

16. Davison also made untrue statements and omitted material facts when he told Complainant 1 that Davison would invest Complainant 1's \$250,000 in an investment opportunity and return the principal and interest by March 2006 and then failed to do so, **and depositing the money invested into accounts Davison owned or controlled**, in violation of § 30-10-301 (1) (b), MCA.

17. **Davison made untrue statements or omitted material facts when he wrote three checks made payable to Complainant 1 on or about April 25, 2006, totaling \$250,000 for the return of principal and interest on the investment without depositing money in the bank to cover the checks, in violation of § 30-10-301 (1) (b), MCA.**

18. Davison made untrue statements and omitted material facts when he told Complainant 2 and spouse he would invest their \$275,000 in St. Labre Indian School Trust when the St. Labre Indian School Trust does not exist **and depositing the money invested into accounts Davison owned or controlled**, in violation of § 30-10-301 (1) (b), MCA.

19. Davison also made untrue statements and omitted material facts when he told Complainant 2 and spouse he would pay them interest quarterly on his promissory note beginning June 30, 2006, and then failed to do so, in violation of § 30-10-301 (1) (b).

20. **Davison violated §30-10-301(1)(b), MCA when he made untrue statements or omitted material facts by failing to inform Complainant 3 that the promissory note sold to Complainant 3 was an unregistered security and would not pay the promised 8% rate of return as outlined in the note, nor would the principal be returned on maturity date.**

21. Davison violated §30-10-301(1)(b), MCA, when he made untrue statements and omitted material facts by failing to demonstrate ownership in the collateral securing the Promissory Note he sold to Complainant 3.

19. Davison violated §30-10-301(1)(b), MCA, when he made untrue statements or omitted material facts by failing to inform Complainant 4 that the Promissory Notes he sold to Complainant 4 were unregistered securities and would not pay the promised rates of return as outlined in the notes, nor would the principal be returned on maturity date.

20. Davison violated §30-10-301(1)(b), MCA, when he made untrue statements and omitted material facts when he failed to demonstrate ownership in the collateral security the Promissory Notes he sold to Complainant 4.

21. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by failing to inform Complainant 5 that the Foundation Assistance Group does not exist and that the \$1,125,000 in notes he sold to Complainant 5 went into accounts owned and controlled by Davison.

18. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by failing to inform Complainant 5 that the Floating Rate Note does not exist and that the \$250,000 investment in this note he sold to Complainant 5 went into accounts owned and controlled by Davison.

19. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by selling unregistered securities to Complainant 6 and depositing the money invested into accounts Davison owned or controlled.

20. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by selling investments in non-existent securities to Complainant 6.

21. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by guaranteeing Complainant 6's investments with instruments or securities to which Davison had no ownership.

22. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by selling unregistered securities to Complainant 7 and depositing the money invested into accounts Davison owned or controlled.

23. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by selling investments in non-existent securities to Complainant 7.

24. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by guaranteeing Complainant 7's investments with instruments or securities to which Davison had no ownership.

25. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by selling unregistered securities to Complainant 8 and depositing the money invested into accounts Davison owned or controlled.

26. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by selling investments in non-existent securities to Complainant 8.

27. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by guaranteeing Complainant 8's investments with instruments or securities to which Davison had no ownership.

28. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by selling unregistered securities to Investor 1 and depositing the money invested into accounts Davison owned or controlled.

29. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by selling investments in non-existent securities to Investor 1.

30. Davison violated §30-10-301 (1) (b), MCA, when he made untrue statements or omitted material facts by guaranteeing Investor 1's investments with instruments or securities to which Davison had no ownership.

31. Davison engaged in an act, practice and course of business that operated as a fraud or deceit when he instructed Complainant 1 to write checks representing proceeds from the distribution from Complainant 1's qualified IRA account to an account owned and controlled by Davison at First Citizen's Bank in Billings and then failed to invest his money in a qualified IRA for Complainant 1, in violation of § 30-10-301 (1) (c), MCA.

32. Davison also engaged in an act, practice and course of business that operated as a fraud or deceit when he took \$250,000 from Complainant 1 for an investment opportunity and failed to return the principal and interest by March 2006 as promised, in violation of § 30-10-301 (1) (c), MCA.

33. Davison engaged in an act, practice and course of business that operated as a fraud or deceit when he sold Complainant 1 a \$250,000 investment opportunity in December 2005 without providing any disclosure and by promising to return the principal and interest by March 2006.

34. Davison engaged in an act, practice and course of business that operated as a fraud or deceit when he provided Complainant 1 three checks representing the return of principal and interest which were uncollectible knowing the checks were not funded and the account was then, subsequently closed by Davison before the checks were honored.

35. Davison engaged in an act, practice and course of business that operated as a fraud or deceit when he instructed Complainant 2 and spouse to write checks to an account owned and controlled by Davison in the name of PPV at the First State Bank of Fort Benton and then failed to invest their money in any viable investment, in violation of § 30-10-301 (1) (c), MCA.

36. Davison also engaged in an act, practice and course of business that operated as a fraud or deceit when he personally borrowed money from Complainant 2 and spouse and subsequently failed to make the requisite first quarterly payment on June 30, 2006, in violation of § 30-10-301 (1) (c), MCA.

37. Davison also engaged in an act, practice and course of business that operated as a fraud or deceit when he failed to demonstrate to Complainant 2 and spouse Davison's personal unencumbered ownership of 1,500 shares of ExxonMobil Corporation, in violation of § 30-10-301 (1) (c), MCA.

38. Davison engaged in an act, practice and course of business that operated as a fraud or deceit when he sold Complainant 3 a Promissory Note that was an unregistered security and would not pay the promised 8% rate of return and would not return the principal on the maturity date as outlined in the Note, in violation of § 30-10-301 (1) (c), MCA.

39. Davison engaged in an act, practice and course of business that operated as a fraud or deceit when he failed to demonstrate ownership in the collateral securing Complainant 3's Note, in violation of § 30-10-301 (1) (c), MCA.

40. Davison engaged in an act, practice and course of business that operated as a fraud or deceit when he sold Complainant 4 promissory notes that were unregistered

securities and would not pay the promised rates of return as outlined in the notes, in violation of § 30-10-301 (1) (c), MCA.

41. Davison engaged in an act, practice and course of business that operated as a fraud or deceit when he failed to demonstrate ownership in the collateral securing the Complainant 4's Note, in violation of § 30-10-301 (1) (c), MCA.

42. Davison engaged in an act, practice and course of business that operated as a fraud or deceit when he sold Complainant 5 \$1,125,000 in notes in the Foundation Assistance Group when the entity does not exist, in violation of § 30-10-301 (1) (c), MCA.

43. Davison engaged in an act, practice and course of business that operated as a fraud or deceit when he prepared false statements for Complainant 5 on UBS Financial Services stationary that represented Complainant 5's money went to PPV Investments Institutional Account when Davison had actually deposited the funds in accounts Davison personally owned and controlled, in violation of § 30-10-301 (1) (c), MCA.

44. Davison engaged in an act, practice and course of business that operated as a fraud or deceit when he sold Complainant 5 a \$250,000 Floating Rate Note that does not exist, in violation of § 30-10-301 (1) (c), MCA.

45. Davison engaged in an act, practice and course of business that operated as a fraud when he prepared false statements for Complainant 5 that represented Complainant 5's money was invested in the PPV Investments Institutional Account when Davison had deposited the funds into accounts Davison personally owned and controlled, in violation of § 30-10-301 (1) (c), MCA.

46. Davison engaged in an act, practice and course of business that operated as a fraud when he sold numerous fraudulent securities to Complainant 6, in violation of § 30-10-301 (1) (c), MCA.

47. Davison engaged in an act, practice and course of business that operated as a fraud when he deposited Complainant 6's funds into accounts Davison personally owned and controlled rather than in the investments promised by Davison, in violation of § 30-10-301 (1) (c), MCA.

48. Davison engaged in an act, practice and course of business that operated as a fraud when he sold numerous fraudulent securities to Complainant 7, in violation of § 30-10-301 (1) (c), MCA.

49. Davison engaged in an act, practice and course of business that operated as a fraud when he deposited Complainant 7's funds into accounts Davison personally owned and controlled rather than in the investments promised by Davison, in violation of § 30-10-301 (1) (c), MCA.

50. Davison engaged in an act, practice and course of business that operated as a fraud when he sold numerous fraudulent securities to Complainant 8, in violation of § 30-10-301 (1) (c), MCA.

51. Davison engaged in an act, practice and course of business that operated as a fraud when he deposited Complainant 8's funds into accounts Davison personally owned and controlled rather than in the investments promised by Davison, in violation of § 30-10-301 (1) (c), MCA.

52. Davison engaged in an act, practice and course of business that operated as a fraud when he sold numerous fraudulent securities to Investor 1, in violation of § 30-10-301 (1) (c), MCA.

53. Davison engaged in an act, practice and course of business that operated as a fraud when he deposited Investor 1's funds into accounts Davison personally owned and controlled rather than in the investments promised by Davison, in violation of § 30-10-301 (1) (c), MCA.

54. Davison engaged in dishonest and unethical practices in the securities business when Davison misappropriated the money entrusted to him by all of the Complainants and the Investor and by engaging in other conduct such as forgery, theft, non-disclosure, incomplete disclosure, misstatement of material facts, manipulative and deceptive practices in violation of §30-10-201 (13) (g), MCA, and ARM § 6.10.126.

55. Davison conducted or promoted an illegal pyramid scheme in the specific form of a Ponzi scheme when he convinced each Complainant and the Investor to invest in fake or fraudulent securities so Davison could provide new investment dollars to pay existing investment obligations and for Davison's personal enrichment, in violation of § 30-10-325 (2), MCA.

RELIEF SOUGHT

1. Order Davison to pay restitution to the victims in this case, including 10% interest from the date of the wrong-doing, pursuant to § 30-10-309, MCA;

2. Order Davison to pay fines not to exceed \$10,000 for each identifiable violation of § 30-10-325 (1), MCA, pursuant to § 30-10-325 (3), MCA;

3. Order Davison to pay fines not to exceed \$5,000 for each identifiable violation of § 30-10-301 (1) (b), MCA, pursuant to § 30-10-305 (3), MCA;
4. Order Davison to pay fines not to exceed \$5,000 for each identifiable violation of § 30-10-301(1)(c), MCA, pursuant to § 30-10-305(3), MCA;
5. Order Davison to pay fines not to exceed \$5,000 for each identifiable violation of § 30-10-201 (13) (g), MCA, and ARM § 6.10.126, pursuant to §§ 30-10-201 (18) and 30-10-305(3), MCA;
6. Order Davison to pay a fine not to exceed \$5,000 for violating § 30-10-201, MCA, pursuant to § 30-10-201 (18), MCA;
7. Order Davison to pay fines not to exceed \$5,000 for each identifiable violation of § 30-10-202, MCA, pursuant to § 30-10-305 (3), MCA; and
8. Any other such relief allowed by law or required by justice.

PUBLIC INTEREST

For any and all of the reasons set forth above, it is in the public interest and will protect Montana investors to:

1. Issue a cease and desist order barring Davison from further violations of the Act;
2. Order Davison to pay administrative fines in an amount and upon such terms and conditions as supported by the evidence and determined at hearing of this matter;
3. Order Davison to pay restitution to Complainants in an amount and upon such terms and conditions, including the statutory 10% per annum interest on the losses Complainants incurred, as supported by the evidence and determined at hearing of this matter; and
4. Take such other actions which may be in the public interest and necessary and appropriate for the protection of Montana investors.

STATEMENT OF RIGHTS

You are entitled to a hearing to respond to this notice, present evidence and arguments on all issues involved in this case. You have a right to be represented by an attorney at any and all stages of this proceeding. You may demand a formal hearing before a hearing examiner appointed by the Commissioner pursuant to the Montana Administrative Procedure Act, sections 2-4-601, MCA, and following, including Section 2-4-631, MCA. If you demand a hearing, you will be given notice of the time, place and the nature of the hearing.

If you want to contest the proposed action under the jurisdiction of the Commissioner, you must advise the Commissioner within fifteen (15) days of the date you receive this notice. You must advise the Commissioner of your intent to contest the proposed action by writing to Roberta Cross Guns, Special Assistant Attorney General, State Auditor's Office, 840 Helena Avenue, Helena, Montana 59601. Your letter must clearly indicate whether you demand a hearing, or whether you waive formal proceedings and, if so, what informal proceedings you prefer for disposition of this case. Pursuant to Section 2-4-603(2), MCA, you may not request to proceed informally if the action could result in suspension, revocation or any other adverse action against a professional license. Should you request a hearing on the matters raised in this Notice, a hearing must be held within 45 days of the request, unless postponed by mutual consent of the parties, pursuant to § 33-1-701 (2), MCA.

Should you request a hearing, you have the right to be accompanied, represented, and advised by counsel. If the counsel you choose has not been admitted to practice law in the state of Montana, he or she must comply with the requirements of Application of American Smelting and Refining Co., (1973), 164 Mont. 139, 520 P.2d 103.

CONTACT WITH SECURITIES COMMISSIONER'S OFFICE

If you have questions or wish to discuss this matter, please contact Roberta Cross Guns, legal counsel for the State Auditor, at 840 Helena Avenue, Helena, MT, 59601, (406)-444-2040 or, within Montana, (800)-332-6148. If an attorney represents you, please make any contacts with this office through your attorney.

POSSIBILITY OF DEFAULT

Failure by Respondent to give notice or to advise of Respondent's demand for a hearing or informal procedure within fifteen (15) days, will result in the entry of a default order imposing the disciplinary sanctions against Respondent, without further notice to Respondent, pursuant to 6.2.101, Administrative Rules of Montana and the Attorney General's Model Rule 10, 1.3.214.

DATED this 14th day of September, 2006.

JOHN MORRISON
State Auditor and ex-officio
Commissioner of Securities

By: Roberta Cross Guns
Roberta Cross Guns
Special Assistant Attorney General

CERTIFICATE OF SERVICE

I hereby certify that I mailed a true and correct copy of the Amended Notice of Proposed Agency Disciplinary Action and Opportunity for Hearing to the following persons by depositing the same in the U.S. Mail, on this 14th day of September, 2006.

Jay Lansing
Moses and Lansing, P.C.
Attorneys at Law
P.O. Box 2533
Billings, MT 59101

Arsen Paulson-Davis
State Auditor's Office